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Medicare Law Is Seen Leading to Cuts in Drug Benefits for Retirees

By ROBERT PEAR

WASHINGTON, July 13 - New government estimates suggest that employers will reduce or eliminate prescription drug benefits for 3.8 million retirees when Medicare offers such coverage in 2006.

That represents one-third of all the retirees with employer-sponsored drug coverage, according to documents from the Department of Health and Human Services.

No aspect of the new Medicare law causes more concern among retirees than the possibility that they might lose benefits they already have.

Democrats are likely to cite the new estimates as evidence to support their contention that the new law will prompt some employers to curtail drug coverage for retirees, forcing them, in some cases, to rely on Medicare's leaner benefits. Republicans do not want to see the government supplant employers in providing drug benefits to retirees.

Senior officials at the department have been saying for weeks that they believe federal subsidies will induce more employers to continue providing drug benefits to retirees. Under the new Medicare law, the government expects to spend $71 billion on subsidies to employers from 2006 to 2013. To qualify for assistance, an employer must certify that its retiree drug benefits are worth at least as much as the standard Medicare drug benefit.

Federal officials have substantial discretion in deciding how to measure the value of drug benefits. They said they would use that discretion to encourage employers to continue providing drug coverage - a goal ardently favored by retirees, labor unions and members of Congress from both parties.

When Medicare officials held an open-door forum on June 9, they were deluged with complaints from Medicare beneficiaries alarmed at the prospect of cuts in retiree drug coverage.

Gale P. Arden, director of the private health insurance group at the Centers for Medicare and Medicaid Services, said: "This is a new line of business for us. We have never been engaged in paying subsidies to employers or unions before."

In last year's debates, Republicans repeatedly said the new drug benefits would be completely voluntary. "Seniors happy with the current Medicare system should be able to keep their coverage just the way it is," Mr. Bush said in his State of the Union Message in 2003.

But Representative Pete Stark of California, the senior Democrat on the Ways and Means

Subcommittee on Health, said it now appeared that the new law would "force millions of retirees out of comprehensive retiree drug coverage and into a flawed, inadequate program."

Still, Republican supporters of the new law and many employers said it would help stabilize retiree health benefits. "Rather than worsening the situation, it works to stop the trend of employers' dropping retiree coverage," said Representative Bill Thomas, Republican of California, one of the principal architects of the law.

Employers lobbied for the subsidies, saying they would slow the erosion of retiree health benefits, a trend that began more than a decade ago.

E. Neil Trautwein, assistant vice president of the National Association of Manufacturers, said Tuesday that he believed the new law "has the potential to slow or even reverse the decline in the level of retiree health coverage provided by employers."

Medicare officials said that 11.5 million beneficiaries would have retiree drug benefits from their former employers in the absence of the new Medicare law.

Under the law, according to the documents from the Department of Health and Human Services, 7.6 million of those retirees are expected to receive drug benefits through employer plans subsidized by the government, and 3.8 million are expected to receive their primary drug coverage from Medicare. This number is expected to grow to 4.1 million by 2010.

Employers who curtail drug benefits could still try to help retirees by offering drug coverage to supplement or complement what Medicare offers. But the government would not subsidize such assistance.

In another sign of Congressional concern about drug costs, the House voted on Tuesday to allow Americans to import prescription drugs from other countries, where prices are often lower. The provision was included in the annual spending bill for the Agriculture Department and the Food and Drug Administration. Republican leaders said it would probably be dropped from the bill in negotiations with the Senate. The White House opposed the provision, saying "it would be virtually impossible" to guarantee the safety of imported medicines.

Medicare officials plan to propose standards for employer-sponsored drug benefits later this month.

Employers say their decisions about whether to continue offering benefits to retirees will depend to a large degree on the federal rules - in particular, the criteria for deciding whether their retiree drug benefits are as generous as those provided by Medicare.

The standard Medicare drug benefit will be worth about $1,200 a year. But its structure - with a large gap in coverage when the beneficiary must pay all drug costs - is much different from the type of drug benefit typically offered by employers.

Frank B. McArdle, a health policy expert at Hewitt Associates, a benefits consulting firm, said: "The subsidy will be very popular with large employers, whose No. 1 concern is to minimize disruption to their retirees. In many cases, employers who take the subsidy will be able to continue doing just what they did before."

But employers said that if the federal rules and requirements proved too burdensome, they would be more likely to drop their retiree drug coverage.

Under the Medicare law, the government will pay a subsidy equal to 28 percent of drug costs from $250 to $5,000 a year for any retiree who has employer-sponsored drug coverage as generous as the standard Medicare drug benefit. The subsidies will be tax-free to employers, who can still take tax deductions for the cost of retiree health benefits.

Anthony J. Knettel, senior health policy adviser at the Erisa Industry Committee, which represents 130 of the nation's largest corporations, said that "some big employers have dozens of different retiree health plans" - for different lines of business, different units of the company or employees hired at different times. It will be difficult to determine whether the "actuarial value" of drug benefits under those plans is equivalent to that of the standard Medicare benefit, he said.

John J. Schubert of PricewaterhouseCoopers, a director of the American Academy of Actuaries, said, "It will be a real challenge for the government to write a set of rules that can be applied to every retiree health plan because every plan is different."